

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Branch Area Transit Authority	County Branch
Fiscal Year End September 30, 2007	Opinion Date November 12, 2007	Date Audit Report Submitted to State December 5, 2007	

We affirm that:

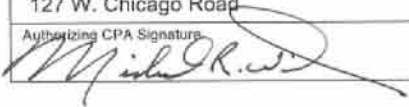
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | |
|-------------------------------------|--------------------------|--------------------------------------------------------------------------------|
| YES | NO | Check each applicable box below. (See instructions for further detail.) |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. ☒ ☐ The local unit has adopted a budget for all required funds.
 5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. ☒ ☐ The local unit is free of repeated comments from previous years.
 12. ☒ ☐ The audit opinion is UNQUALIFIED.
 13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	Internal Control and Compliance - Govn Auditing Standards	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.		Telephone Number 269-651-3228	
Street Address 127 W. Chicago Road		City Sturgis	State MI
		Zip 49091	
Authorizing CPA Signature 		Printed Name Michael R. Wilson CPA	License Number 1101017570

BRANCH AREA TRANSIT AUTHORITY
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
YEAR ENDED SEPTEMBER 30, 2007

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Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road
Sturgis, MI 49091
269.651.3228
Fax 269.651.5146
E-mail
normanpaulsen@charter.net

Other Location:
123 N. Main Street
Three Rivers, MI 49093
269.273.8641
Fax 269.278.8252
E-mail
npnr@npaccounting.com

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Board of Directors
Branch Area Transit Authority
Branch County, Michigan

We have audited the accompanying basic financial statements of Branch Area Transit Authority (the Authority) as of and for the year ended September 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Branch Area Transit Authority as of September 30, 2007, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jerrold T. Norman (1941-1982)

Board of Directors
Branch Area Transit Authority

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Branch Area Transit Authority basic financial statements. The accompanying other supplemental information, as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Branch Area Transit Authority. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2007, on our consideration of Branch Area Transit Authority internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

November 12, 2007

Norman J. Paulson, P.C.

BRANCH AREA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2007

This section of the Authority's Financial Report presents management's overview and analysis of the Authority's financial performance for the fiscal year ended September 30, 2007. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- * The assets of the Authority exceeded it's liabilities at September 30, 2007, by \$2,569,382. Of this amount, \$1,936,511 represents net assets which are not invested in capital assets.
- * The Authority's total net assets decreased by \$17,452.
- * The Authority remained free of long-term debt during the period.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about it's activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Analysis

For the year ended September 30, 2007, assets exceeded liabilities by \$2,569,382. Transit is a capital-intensive enterprise, and approximately 25% of the net assets are invested in capital assets. The following is a summary of the Authority's net assets.

BRANCH AREA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2007

Summary of Net Assets

	<u>2007</u>	<u>2006</u>
Assets:		
Current Assets	\$ 2,040,957	\$ 1,922,699
Capital Assets (Net)	<u>632,871</u>	<u>732,211</u>
Total Assets	<u>\$ 2,673,828</u>	<u>\$ 2,654,910</u>
Liabilities:		
Current liabilities	\$ 104,446	\$ 68,076
Net Assets:		
Invested in Capital Assets	632,871	732,211
Unrestricted	<u>1,936,511</u>	<u>1,854,623</u>
Total liabilities and Net Assets	<u>\$ 2,673,828</u>	<u>\$ 2,654,910</u>

The Authority's net assets decreased by \$17,452 in 2007. The following is a summary Statement of Revenues, Expenses, and Changes in Net Assets which show how the increase in net assets occurred. Also shown is the change for the year ended September 30, 2006.

Summary Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Operating Revenue	\$ 191,188	\$ 176,706
Operating Expenses	<u>1,386,872</u>	<u>1,311,334</u>
Operating Loss	(1,195,684)	(1,134,628)
Taxes	405,730	384,584
Other Non-Operating Revenue	<u>759,758</u>	<u>756,243</u>
Total Non-Operating Revenue	<u>1,165,488</u>	<u>1,140,827</u>
Net Income (Loss)	(30,196)	6,199
Capital Grants	<u>12,744</u>	<u>64,073</u>
Change in Net Assets	<u>\$ (17,452)</u>	<u>\$ 70,272</u>

BRANCH AREA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2007

The following table shows 2007 revenue compared to 2006:

	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>
REVENUES			
Operating			
Special transit fares	\$ 124,256	\$ 113,671	\$ 10,585
Demand-response (farebox)	44,304	39,218	5,086
Demand-response (tickets)	22,628	23,817	(1,189)
Non-Operating			
State Assistance	475,436	487,683	(12,247)
Federal Assistance	207,589	203,964	3,625
Property taxes	405,730	384,584	21,146
Interest income	72,220	59,526	12,694
Advertising	4,305	1,925	2,380
Other	208	3,145	(2,937)
CAPITAL CONTRIBUTIONS			
Federal	\$ 10,459	\$ 51,259	\$ (40,800)
State	2,285	12,814	(10,529)

The federal reimbursement rate remained at 17.00% in 2006 and in 2007 for eligible expenses. For federal reimbursement computation net eligible expenses increased by \$44,427. The State reimbursement rate decreased from 39.2545% to 38.6208%. For state reimbursement computation net eligible expenses increased by \$44,427.

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas of the Authority and includes:

- Operations - Responsible for all on-street services, including operators, dispatchers, and schedulers.
- Maintenance - Responsible for providing vehicles (including fuel, parts, and cleaning) and facilities (upkeep, utilities, and rent).
- Administration - All other functions including executive direction, planning, marketing, information systems, purchasing and finance.
- Depreciation - Estimated pro-ration of the cost of capital assets over the useful life of the asset.

BRANCH AREA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2007

The following table shows the expenses for 2007 compared to 2006 by department:

<u>DEPARTMENT</u>	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>
Operations	\$ 914,681	\$ 842,738	\$ 71,943
Maintenance	145,695	118,938	26,757
Administration	205,154	204,099	1,055
Depreciation	<u>121,342</u>	<u>145,559</u>	<u>(24,217)</u>
Total expenses	<u>\$ 1,386,872</u>	<u>\$ 1,311,334</u>	<u>\$ 75,538</u>

Operations costs increased because wages were up by \$29,928; fuel costs were up by \$10,405, general insurance costs decreased by \$3,590 and fringe benefits were up by \$33,752.

Maintenance costs increased because wages increased by \$2,307 and fringe benefits increased by \$20,119.

Administration costs remained relatively constant.

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2007 compared to 2006 by object:

<u>OBJECT</u>	<u>2007</u>	<u>2006</u>	<u>Increase/ (Decrease)</u>
Wages and benefits	\$ 1,030,629	\$ 942,882	\$ 87,747
Services	27,901	24,353	3,548
Supplies and materials	145,132	133,514	11,618
Utilities	24,546	25,306	(760)
Casualty and liability	28,462	32,722	(4,260)
Miscellaneous	8,860	6,998	1,862
Depreciation	<u>121,342</u>	<u>145,559</u>	<u>(24,217)</u>
Total	<u>\$ 1,386,872</u>	<u>\$ 1,311,334</u>	<u>\$ 75,538</u>

Wages and benefits increased as a result of higher wage and benefit rates.

Supplies and materials increased as a result of higher fuel costs.

BRANCH AREA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2007

Capital Assets

The Authority's investment in capital assets as of September 30, 2007, amounted to \$632,871 net of accumulated depreciation. Capital assets consist of land, buildings, buses, other vehicles, bus and garage equipment and office equipment. Major capital asset acquisitions during 2007 included the following:

Maintenance equipment - \$ 3,743

Revenue vehicle - \$ 8,571

Office equipment - \$ 9,689

The above capital asset acquisitions were funded by federal and state capital grants and local money.

Economic Factors and Future Outlook

At the time these financial statements were prepared and audited, the Authority was aware of the following items that could significantly affect it's financial health in the future:

With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which federal and state operating assistance and capital grants will be funded.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Branch Area Transit Authority, P.O. Box 979, 306 South Clay Street, Coldwater, MI 49036.

BASIC FINANCIAL STATEMENTS

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

ASSETS

ASSETS

Current Assets

Cash and equivalents	\$ 1,896,628
Receivables:	
Accounts	10,369
Federal government	65,654
State government	16,896
Inventory	11,081
Prepaid expenses	40,329
Capital assets, net	<u>632,871</u>

Total assets 2,673,828

LIABILITIES, ALL CURRENT

Accounts payable	13,287
Accrued salaries and wages	29,416
Due to other governmental units	
Federal government	1,839
State government	<u>59,904</u>

Total current liabilities 104,446

NET ASSETS

Investment in capital assets, net of related debt	632,871
Unrestricted	<u>1,936,511</u>

Total net assets \$ 2,569,382

See accompanying notes to financial statements

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2007

OPERATING REVENUES

Special transit fares	\$ 12,765
Demand-response (farebox)	44,304
Demand-response (tickets)	22,628
County Commission on Aging - contract fares	18,000
ADAPT, Inc. - contract fares	<u>93,491</u>

Total operating revenue 191,188

OPERATING EXPENSES

Operations	959,818
Maintenance	156,581
General administration	<u>270,473</u>

Total operating expenses 1,386,872

Operating loss (1,195,684)

NON-OPERATING REVENUE

State grants	475,436
Federal grants	207,589
Property taxes	405,730
Interest income	72,220
Advertising	4,305
Donations	<u>208</u>

Total non-operating revenue 1,165,488

Net loss before contributions (30,196)

CAPITAL CONTRIBUTIONS

12,744

Change in net assets (decrease) (17,452)

TOTAL NET ASSETS - BEGINNING OF YEAR 2,586,834

TOTAL NET ASSETS - END OF YEAR \$ 2,569,382

See accompanying notes to financial statements

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 196,981
Payments to suppliers	(236,437)
Payments to employees	<u>(1,031,637)</u>
Net cash used in operating activities	(1,071,093)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Federal and state grants	717,961
Local funding	<u>405,991</u>
Net cash provided by non-capital financing activities	1,123,952
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	72,220
CASH FLOWS FROM CAPITAL ACTIVITIES	
Purchase of capital assets	(22,003)
Receipts from capital grants	12,804
Proceeds from the sale of capital assets	<u>-</u>
Net cash provided by capital activities	<u>(9,199)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	115,880
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,780,748</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,896,628</u></u>

See accompanying notes to financial statements

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2007

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating loss	\$ (1,191,379)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	121,342
Changes in assets and liabilities	
Accounts receivable	322
Inventory	306
Prepaid items	(2,761)
Accounts payable	2,085
Accrued payroll	<u>(1,008)</u>
Net cash used in operating activities	<u>\$ (1,071,093)</u>

See accompanying notes to financial statements

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2007

NOTE 1 - REPORTING ENTITY

Branch Area Transit Authority is a nonprofit corporation organized pursuant to the Public Transportation Authority Act 196 of the State of Michigan. Its member municipalities include the Cities of Coldwater and Bronson, the Villages of Quincy, Sherwood, and Union City, and the County of Branch.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Branch Area Transit Authority conform to generally accepted accounting principles as applicable to nonprofit entities. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed by the Branch Area Transit Authority. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

Fixed Assets and Depreciation - Fixed assets are stated at cost or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Provisions for depreciation of fixed assets are computed on the straight line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as defined in the R & E Manual and/or as approved by BPT.

The eligible depreciation of \$1,853 includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by the BPT.

Inventory - Inventory consists of consumable materials and supplies and is valued at the lower of cost or market.

Cash Equivalents - All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Operating Revenues - Operating revenues consist of farebox collections as well as ticket sales. They also include contract revenue where the Authority has entered into a contract to be paid for services.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2007

NOTE 3 - CASH AND EQUIVALENTS

The Authority uses financial institutions for cash and deposit purposes, which is in accordance with statutory authority. The accounts maintained are checking, savings, and certificates of deposit. The carrying value is \$1,896,628 and the bank balance is \$1,922,895.

The risk exposure of the cash and equivalents may be summarized as follows:

Insured	\$ 700,005
Uninsured	<u>1,222,890</u>
Total cash and equivalents	<u>\$ 1,922,895</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Depreciation included in the determination of net earnings for the year ended September 30, 2007, amounted to \$121,342. As discussed in note 2, depreciation is computed by the straight line method. The principal categories of property and equipment may be summarized as follows:

	Purchased with Capital Grants	Purchased with Authority Funds	Total
Land	\$ 35,000	\$ -	\$ 35,000
Operating facility	1,063,928	21,264	1,085,192
Vehicles	667,837	13,868	681,705
Maintenance equipment	54,687	12,705	67,392
Office equipment	<u>77,911</u>	<u>7,859</u>	<u>85,770</u>
Total	1,899,363	55,696	1,955,059
Less: Accumulated depreciation	<u>1,281,724</u>	<u>40,464</u>	<u>1,322,188</u>
Undepreciated cost	<u>\$ 617,639</u>	<u>\$ 15,232</u>	<u>\$ 632,871</u>

When state funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the Michigan Department of Transportation.

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2007

NOTE 4 - PROPERTY AND EQUIPMENT - Continued

CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
Capital Assets Being Depreciated				
Operating facility	1,085,192	-	-	1,085,192
Vehicles	673,134	8,571	-	681,705
Maintenance equipment	63,649	3,743	-	67,392
Office equipment	<u>76,081</u>	<u>9,689</u>	<u>-</u>	<u>85,770</u>
Subtotal	1,898,056	22,003	-	1,920,059
Less Accumulated Depreciation for				
Operating facility	555,269	57,648	-	612,917
Vehicles	539,501	54,503	-	594,004
Maintenance equipment	49,506	3,782	-	53,288
Office equipment	<u>56,570</u>	<u>5,409</u>	<u>-</u>	<u>61,979</u>
Subtotal	<u>1,200,846</u>	<u>121,342</u>	<u>-</u>	<u>1,322,188</u>
Net Capital Assets Being Depreciated	<u>697,210</u>			<u>597,871</u>
Total Capital Assets - Net of Depreciation	<u>\$ 732,210</u>			<u>\$ 632,871</u>

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2007

NOTE 5 - DUE FROM FEDERAL GOVERNMENT

Branch Area Transit Authority receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due from the federal government is as follows:

For the Year Ended September 30, 2007

Net eligible expenses	\$ 1,133,315	
Funding rate	<u>17.00%</u>	
Section 5311 revenue	192,664	
Funding received	137,050	
Due from federal government		55,614

For the Year Ended September 30, 2004

Net eligible expenses	\$ 950,133	
Funding rate	<u>10.95%</u>	
Section 5311 revenue	104,040	
Funding received	103,181	
Due from federal government		859

Branch Area Transit Authority receives funding from the U.S. Department of Transportation for the Job Access and Reverse Commute Program. For the year ended September 30, 2007, costs incurred compared to funding received is as follows:

Eligible costs	\$ 24,759	
Maximum funding per contract	12,500	
Funding received	<u>4,402</u>	
Due from federal government		8,098

Branch Area Transit Authority receives funding from the U.S. Department of Transportation under the Rural Transit Assistance Program (RTAP). For the year ended September 30, 2007, costs incurred compared to funding received is as follows:

Eligible costs	\$ 2,791	
Funding received	<u>1,708</u>	
Due from federal government		<u>1,083</u>
Total due from federal government		<u>\$ 65,654</u>

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2007

NOTE 6 - DUE TO FEDERAL GOVERNMENT

Branch Area Transit Authority receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due to the federal government is as follows:

For the Year Ended September 30, 2006

Net eligible expenses	\$ 1,088,887	
Funding rate	<u>17.00%</u>	
Section 5311 revenue	185,111	
Funding received	<u>185,765</u>	
Due to federal government		654

For the year ended September 30, 2005

Net eligible expenses	\$ 1,055,036	
Funding rate	<u>12.4%</u>	
Section 5311 revenue	130,824	
Funding received	131,278	
Funding adjustment	<u>366</u>	
Due to federal government		820

For the Year Ended September 30, 2002

Net eligible expenses	\$ 757,340	
Funding rate	<u>10.95%</u>	
Section 5311 revenue	82,934	
Funding received	<u>83,299</u>	
Due to federal government		<u>365</u>
Total due to federal government		<u>\$ 1,839</u>

NOTE 7 - DUE FROM STATE GOVERNMENT

Branch Area Transit Authority receives funding from the State of Michigan for Specialized Services. The computation of the amount due from the State of Michigan under specialized services contract is as follows:

For the Year Ended September 30, 2007

Eligible costs	\$ 23,781	
Funding received	<u>18,392</u>	
Due from state government		5,389

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2007

NOTE 7 - DUE FROM STATE GOVERNMENT - (Continued)

For the Year Ended September 30, 2005

Eligible costs	\$ 21,355
Funding received	<u>21,351</u>

Due from state government

4

Branch Area Transit Authority receives funding from the State of Michigan for the Project Zero Program. The computation of the amount due from the State of Michigan under the Project Zero Agreement is as follows:

For the Year Ended September 30, 2005

Eligible costs	\$ 1,134,741
Funding rate	<u>1.2201%</u>
	13,845
Add project zero overtime	<u>703</u>
Funding earned	14,548
State percent	75%
Funding earned	10,911
Funding received	13,254
Funding paid back	<u>(2,929)</u>

Due from state government

586

For the Year Ended September 30, 2004

Eligible costs	\$ 1,050,679
Funding rate	<u>3.1911%</u>
	33,528
Add project zero overtime	<u>1,785</u>
Funding earned	35,313
State percent	75%
Funding earned	26,485
Maximum funding per contract	26,349
Funding received	<u>25,645</u>

Due from state government

704

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2007

NOTE 7 - DUE FROM STATE GOVERNMENT - Continued

For the Year Ended September 30, 2003

Eligible costs	\$ 979,172	
Funding rate	<u>5.7622%</u>	
	56,422	
Add project zero overtime	<u>2,462</u>	
Funding earned	58,884	
State percent	75%	
Funding earned	44,163	
Funding received	<u>42,048</u>	
Due from state government		2,115

Branch Area Transit Authority receives funding from the State of Michigan for the Job Access and Reverse Commute Program. For the year ended September 30, 2007, costs incurred compared to funding received is as follows:

Eligible costs	\$ 24,759	
Maximum funding per contract	12,500	
Funding received	<u>4,402</u>	
Due from state government		<u>8,098</u>
Total due from state government		<u>\$ 16,896</u>

NOTE 8 - DUE TO STATE GOVERNMENT

Branch Area Transit Authority receives funding from the State of Michigan for the State of Michigan Operating Assistance Program. The computation of the amount due to the State of Michigan under the Operating Assistance Agreement is as follows:

For the Year Ended September 30, 2007

Eligible costs	\$ 1,137,605	
Funding rate	<u>38.6208%</u>	
Funding earned	439,352	
Funding received	<u>480,914</u>	
Due to state government		41,562

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2007

NOTE 8 - DUE TO STATE GOVERNMENT - Continued

For the Year Ended September 30, 2006

Eligible costs	\$ 1,093,177
Funding rate	<u>39.2545%</u>
Funding earned	429,121
Funding received	443,135
Funding paid back	<u>(7,288)</u>

Due to state government 6,726

Branch Area Transit Authority receives funding from the State of Michigan for Specialized Services. The computation of the amount due to the State of Michigan under the Specialized Services contract for the year ended September 30, 2002 is as follows:

Eligible costs	\$ 25,547
Funding received	<u>29,345</u>

Due to state government 3,798

Branch Area Transit Authority receives funding from the State of Michigan for the Project Zero Program. The computation of the amount due to the State of Michigan under the Project Zero Agreement is as follows:

For the Year Ended September 30, 2002

Eligible costs	\$ 899,413
Funding rate	<u>8.2496%</u>
	74,198
Add Project Zero overtime	<u>4,028</u>
Funding earned	78,226
Funding received	<u>86,044</u>

Due to state government 7,818

Total due to state government \$ 59,904

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2007

NOTE 9 - PROPERTY TAX REVENUE

Property taxes are levied each December 1, by the governmental entities within Branch County. The governmental units bill and collect property taxes, then remit them to the Authority. Property tax revenues are recognized when levied to the extent they are deemed to be collectable. The governmental units collect taxes until March 1, at which time real property taxes are turned over to the county for reimbursement from their revolving tax fund. The governmental units continue to collect delinquent personal property taxes.

The taxable value of all real and personal property on which Authority tax levies were based for the year ended September 30, 2007, was \$1,176,543,411 and the millage rate was .3436 mills. Property tax revenue is recorded under local funding.

NOTE 10- CAPITAL CONTRIBUTIONS

The following represents the capital contributions earned by Branch Area Transit Authority under federal and state funding:

<u>Contract</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
02-0021/Z19	\$ 630	\$ -	\$ 630
02-0021/Z10	7,247	1,640	8,887
02-0021/Z14	<u>2,582</u>	<u>645</u>	<u>3,227</u>
Total	<u>\$ 10,459</u>	<u>\$ 2,285</u>	<u>\$ 12,744</u>

NOTE 11- RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Authority carries commercial insurance to cover these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this coverage in any of the past fiscal years.

The Branch Area Transit Authority participates in a risk pool. The transit agency is responsible for the first \$25,000 per claim. This first comes out of the Authority's deposit with the risk pool. They will be billed for anything above the amount in the deposit to equal \$25,000 total. Any claims above \$25,000 goes into the risk shared pool and is shared by all members. The limits of coverage are \$2,000,000 by the Michigan Transit Pool. There is also reinsurance through Transit Re, Ltd. for \$3,000,000 which gives a total of \$5,000,000 per claim.

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2007

NOTE 12- CONTINGENCIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

NOTE 13- COST ALLOCATION PLANS

Branch Area Transit Authority has six cost allocation plans where the methodology has been approved by the BPT. These cost allocation plans are for gasoline purchase, charter, specialized services, maintenance services, regional transportation cost allocation, and Project Zero cost allocation. Project Zero has been replaced by the Job Access and Reverse Commute Program. The allocation schedule has been submitted to BPT. JARC replaces Project Zero and the allocation plan is based upon vehicle hours as was Project Zero. BPT told the Authority what wording changes to make. The allocation plans were adhered to in the preparation of the Financial Statements.

NOTE 14- EXPLANATION OF INELIGIBLE EXPENSES PER THE BPT R&E MANUAL

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87. Branch Area Transit Authority did not incur expenses associated with advertising revenue and, therefore, no expenses are subtracted out as ineligible on the Statement of Net Eligible Expenses.

NOTE 15- RETIREMENT PLAN

Effective October 1, 1993, the Authority established an IRC Section 457 Deferred Compensation Plan. This plan was updated effective January 1, 2002. This is a defined contribution plan. All employees are eligible to participate. The Authority will match the employee contributions up to a maximum of \$1,500. For the period ended September 30, 2007, pension expense was \$21,589.

NOTE 16- EXPENSES PAID WITH CAPITAL GRANTS

For the year ended September 30, 2007, all capital grant money from the State and Federal government was spent on capital projects. None of the money was used for expenses.

OTHER SUPPLEMENTAL INFORMATION

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF OPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2007

	Normal <u>Services</u>	Specialized <u>Services</u>	Job Access and Reverse Commute <u>Program</u>	<u>Totals</u>
Special transit fares	\$ 10,359	\$ 2,406	\$ -	\$ 12,765
Demand - response (farebox)	40,371	3,933	-	44,304
Demand - response (tickets)	22,628	-	-	22,628
County Commission on				
Aging - contract fares	15,628	2,372	-	18,000
ADAPT, Inc. - contract fares	<u>93,491</u>	<u>-</u>	<u>-</u>	<u>93,491</u>
 Total operating revenues	 <u>\$ 182,477</u>	 <u>\$ 8,711</u>	 <u>\$ -</u>	 <u>\$ 191,188</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF NONOPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2007

	Normal Services	Specialized Services	Job Access and Reverse Commute Program	Total
State of Michigan Operating Grants				
Local bus operating assistance	\$ 439,352	\$ -	\$ -	\$ 439,352
Local bus operating assistance- previous years	(197)	-	-	(197)
Specialized services - operating assistance	-	23,781	-	23,781
Job Access and Reverse Commute Program	-	-	12,500	12,500
Total State of Michigan operating grants	439,155	23,781	12,500	475,436
Federal Operating Grants				
U.S. DOT operating grant - section 5311, RTAP	2,791	-	-	2,791
U.S. DOT operating grant - section 5311, contract 2007-0179/Z3/R1	192,663	-	-	192,663
U.S. DOT operating grant - Section 5311 - prior years	(365)	-	-	(365)
U.S. DOT Job Access and Reverse Commute Program - Section 2007-0179/Z2	-	-	12,500	12,500
Total Federal operating grants	195,089	-	12,500	207,589
Property taxes	405,730	-	-	405,730
Interest income	72,220	-	-	72,220
Advertising	4,305	-	-	4,305
Donations	199	9	-	208
Total nonoperating revenues	<u>\$1,116,698</u>	<u>\$ 23,790</u>	<u>\$ 25,000</u>	<u>\$1,165,488</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2007

	Normal <u>Services</u>	Specialized <u>Services</u>	Job Access and Reverse Commute <u>Program</u>	<u>Total</u>
Labor				
Operator's salaries and wages	\$ 305,863	\$ 21,375	\$ 13,664	\$ 340,902
Other salaries and wages	160,974	11,249	7,191	179,414
Dispatcher's salaries and wages	96,840	6,767	4,326	107,933
Fringe benefits				
Other fringe benefits	341,652	23,876	15,263	380,791
Pensions	19,369	1,354	866	21,589
Services				
Audit costs	4,290	-	-	4,290
Advertising/promotion media	11,979	737	471	13,187
Other services	9,470	582	372	10,424
Materials and supplies consumed				
Fuel and lubricants	101,312	6,230	3,982	111,524
Tires and tubes	2,532	155	100	2,787
Other materials and supplies	27,999	1,722	1,100	30,821
Utilities				
Other	19,063	1,172	749	20,984
Telephone	3,236	199	127	3,562
Casualty and liability costs				
Premiums for public liability and property damage insurance	20,718	1,274	814	22,806
Other insurance	5,138	316	202	5,656
Taxes				
Taxes/licenses	250	15	10	275
Miscellaneous expenses				
Travel, meetings, and training	2,503	-	-	2,503
Dues and subscriptions	906	56	35	997
Other miscellaneous expenses	1,483	92	58	1,633
Leases and rentals	3,136	193	123	3,452
Depreciation	<u>121,172</u>	<u>104</u>	<u>66</u>	<u>121,342</u>
Total operating expenses	<u>\$1,259,885</u>	<u>\$ 77,468</u>	<u>\$ 49,519</u>	<u>\$1,386,872</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF OPERATING EXPENSES BY CATEGORY
YEAR ENDED SEPTEMBER 30, 2007

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Labor				
Operator's salaries and wages	\$ 340,902	\$ -	\$ -	\$ 340,902
Other salaries and wages	-	71,989	107,425	179,414
Dispatcher's salaries and wages	107,933	-	-	107,933
Fringe benefits				
Other fringe benefits	262,664	53,516	64,611	380,791
Pensions	16,219	3,395	1,975	21,589
Services				
Audit costs	-	-	4,290	4,290
Advertising/promotion media	-	-	13,187	13,187
Other services	78	8,831	1,515	10,424
Materials and supplies consumed				
Fuel and lubricants	111,140	-	384	111,524
Tires and tubes	2,787	-	-	2,787
Other materials and supplies	19,816	6,801	4,204	30,821
Utilities				
Other	20,984	-	-	20,984
Telephone	3,562	-	-	3,562
Casualty and liability costs				
Premiums for public liability and property damage insurance	22,806	-	-	22,806
Other insurance	-	-	5,656	5,656
Taxes				
Taxes/licenses	195	75	5	275
Miscellaneous expenses				
Travel, meetings and training	1,186	235	1,082	2,503
Dues and subscriptions	443	-	554	997
Other miscellaneous expenses	1,329	152	152	1,633
Leases and rentals	2,637	701	114	3,452
Depreciation	<u>45,137</u>	<u>10,886</u>	<u>65,319</u>	<u>121,342</u>
Total operating expenses	959,818	156,581	270,473	1,386,872
Ineligible Expenses:				
Ineligible RTAP	1,186	235	1,370	2,791
Ineligible Depreciation	<u>44,762</u>	<u>10,878</u>	<u>63,849</u>	<u>119,489</u>
Total ineligible expenses	<u>45,948</u>	<u>11,113</u>	<u>65,219</u>	<u>122,280</u>
Total eligible expenses	<u>\$ 913,870</u>	<u>\$ 145,468</u>	<u>\$ 205,254</u>	<u>\$1,264,592</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2007

	<u>RTAP</u>	<u>Specialized Services</u>	<u>Job Access and Reverse Commute Program</u>	<u>Normal Services</u>	<u>Total</u>
Labor	\$ -	\$ 39,391	\$ 25,181	\$ 563,677	\$ 628,249
Fringe benefits	-	25,230	16,129	361,021	402,380
Services	-	1,319	843	25,739	27,901
Materials and supplies	-	8,107	5,182	131,843	145,132
Utilities	-	1,371	876	22,299	24,546
Casualty and liability costs	-	1,590	1,016	25,856	28,462
Taxes	-	15	10	250	275
Miscellaneous	2,791	148	93	2,101	5,133
Leases and rentals	-	193	123	3,136	3,452
Depreciation	-	104	66	121,172	121,342
Total	2,791	77,468	49,519	1,257,094	1,386,872
Less: Ineligible expenses	<u>2,791</u>	<u>-</u>	<u>-</u>	<u>119,489</u>	<u>122,280</u>
Total eligible expenses	<u>\$ -</u>	<u>\$ 77,468</u>	<u>\$ 49,519</u>	<u>\$ 1,137,605</u>	<u>\$ 1,264,592</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF NET ELIGIBLE EXPENSES
YEAR ENDED SEPTEMBER 30, 2007

	Federal Section 5311 <u>Revenue</u>	State Operating <u>Assistance</u>
OPERATING EXPENSES		
Labor	\$ 628,249	\$ 628,249
Fringe benefits	402,380	402,380
Services	27,901	27,901
Materials and supplies	145,132	145,132
Utilities	24,546	24,546
Casualty and liability costs	28,462	28,462
Taxes	275	275
Miscellaneous	5,133	5,133
Leases and rentals	3,452	3,452
Depreciation	<u>121,342</u>	<u>121,342</u>
Total operating expenses	1,386,872	1,386,872
LESS INELIGIBLE EXPENSES		
CPA audit	4,290	-
RTAP grant	2,791	2,791
Depreciation	119,489	119,489
Specialized services	77,468	77,468
Job Access and Reverse Commute Program	<u>49,519</u>	<u>49,519</u>
Total ineligible expenses	<u>253,557</u>	<u>249,267</u>
Net eligible expenses	<u>\$ 1,133,315</u>	<u>\$1,137,605</u>
Federal Section 5311 revenue (17.0%)	<u>\$ 192,664</u>	
State Operating Assistance		
A. Reimbursement (38.6208% x \$1,137,605)		<u>\$ 439,352</u>
B. Statutory cap (60% x \$1,137,605)		<u>\$ 682,563</u>
C. Must receive as a minimum 1997 floor		<u>\$ 300,106</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF MILEAGE AND PASSENGER DATA
YEAR ENDED SEPTEMBER 30, 2007
(UNAUDITED)

	Public Transportation Mileage	Public Transportation Passengers	Public Transportation Vehicle Hours
NORMAL SERVICES			
<u>Demand-Response</u>			
First quarter	72,639	22,036	5,021
Second quarter	75,705	23,297	5,113
Third quarter	75,508	22,944	5,087
Fourth quarter	<u>70,475</u>	<u>20,595</u>	<u>4,865</u>
Total normal services	<u>294,327</u>	<u>88,872</u>	<u>20,086</u>
SPECIALIZED SERVICES			
<u>Demand-Response</u>			
First quarter	4,318	1,710	343
Second quarter	3,489	1,401	293
Third quarter	3,447	1,408	307
Fourth quarter	<u>3,597</u>	<u>1,324</u>	<u>324</u>
Total specialized services	<u>14,851</u>	<u>5,843</u>	<u>1,267</u>
JOB ACCESS AND REVERSE COMMUTE PROGRAM			
<u>Demand-Response</u>			
First quarter	2,641	107	255
Second quarter	142	16	36
Third quarter	330	21	24
Fourth quarter	<u>5,505</u>	<u>393</u>	<u>526</u>
Total job access and reverse commute program	<u>8,618</u>	<u>537</u>	<u>841</u>
TOTAL OPERATION			
<u>Demand-Response</u>			
First quarter	79,598	23,853	5,619
Second quarter	79,336	24,714	5,442
Third quarter	79,285	24,373	5,418
Fourth quarter	<u>79,577</u>	<u>22,312</u>	<u>5,715</u>
Total operation	<u>317,796</u>	<u>95,252</u>	<u>22,194</u>

NOTE - The methodology used for compiling mileage, passenger data and vehicle hours has been reviewed and found to be an adequate and reliable method for recording vehicle mileage, passenger data and vehicle hours.



Norman & Paulsen, P.C.

Certified Public Accountants

127 W. Chicago Road

Sturgis, MI 49091

269.651.3228

Fax 269.651.5146

E-mail

normanpaulsen@charter.net

Other Location:

123 N. Main Street

Three Rivers, MI 49093

269.273.8641

Fax 269.278.8252

E-mail

npnr@npaccounting.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Branch Area Transit Authority

We have audited the basic financial statements of Branch Area Transit Authority as of and for the year ended September 30, 2007, and have issued our report thereon dated November 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2007-1 and 2007-2.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrel T. Norman (1941-1982)

Finding 2007-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due primarily to the related negative impact on cash funds available to the Authority, the hiring of accounting personnel capable of writing the Authority's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

The Authority's response to the findings identified in our audit is described above. We did not audit the Authority's response and, accordingly, we express no opinion on it.

Finding 2007-2: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: As noted above, due to decreased cash flows of the Authority, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Authority's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Board of Directors assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

The Authority's response to the findings identified in our audit is described above. We did not audit the Authority's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2007-1 and Finding 2007-2 to be a material weakness.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, others within the organization, the Board of Directors and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

November 12, 2007

Norman J. Paulson, P.C.